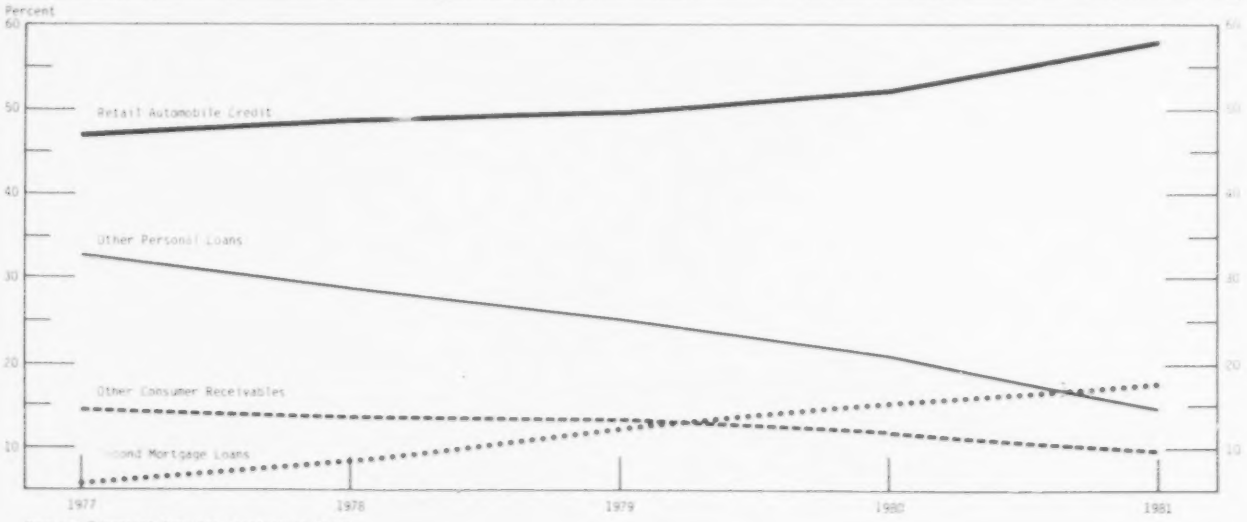
A1615-1 3/9/83

FinanceFacts

A Monthly Publication on Consumer Financial Behavior FEBRUARY 1983

Percentage Distributions of Consumer Receivables at Finance Companies
1977-1981



American Financial Services Association Chart
Source: American Financial Services Association

Inflation, recession, financial deregulation, and the rapid pace of change in recent years have focused widespread public attention on evolution in the nation's financial institutions and markets. Traditional financial institutions have entered new markets and provided new financial products. At the same time, nonfinancial firms have newly entered financial markets either by acquiring existing firms or by starting financial subsidiaries. The speed of these changes, coupled with two recessions in the past three years, has raised many questions about trends among traditional financial competitors, including finance companies. To provide some answers, AFSA Research Services has produced a new report examining five-year trends in finance companies' consumer credit, 1977-1981. The report employs a consistent sample of companies over the period (adjusted for mergers) in order to avoid sample biases arising from variations in coverage. The sample includes thirty-five of the companies with the largest portfolios of consumer receivables, including eighteen of the largest twenty. Although this sample obviously is not randomly selected, its coverage suggests that importance may be attached to the trends observed. The thirty-five companies account for more than 75 percent of Federal Reserve estimates of total finance company personal loans outstanding and more than 85 percent of estimates of finance company automobile credit.

As discussed more fully in Finance Facts in June 1982, finance companies' consumer credit has grown more rapidly in recent years than consumer credit at the other major consumer creditors - commercial banks and credit unions. At

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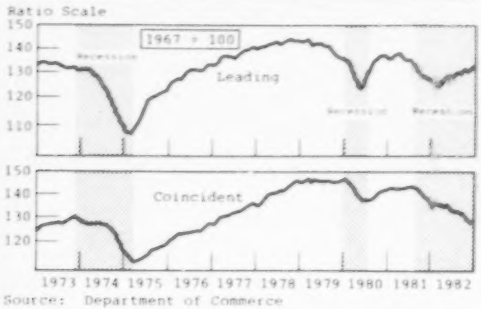
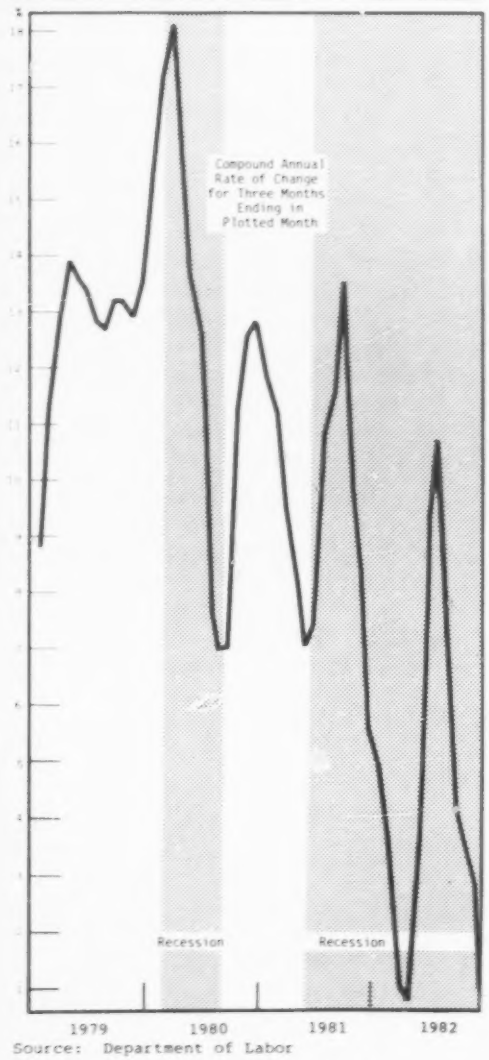
Composite Indexes By Months 1973-1982



Source: Department of Commerce

Change in Consumer Price Index

(All Urban Consumers, 1979-1982)



Source: Department of Labor

LEADING ECONOMIC INDICATORS

The composite index of leading indicators increased 1.5% in December to a level of 132.8 (1967=100), according to preliminary data. Based on more complete data, this index increased 0.2% in November and increased 0.3% in October. The December increase is the fourth in as many months and the eighth increase in the last nine. Of the ten components that made up the indicators for December, six increased, three declined and one was unchanged. The leading indicators ended 1982 up 4.5% from the end of 1981.

The composite index of coincident indicators, which is a monthly approximation of aggregate economic activity, decreased 0.1% in December to a level of 128.2 (1967=100), based on preliminary data. November's index was down 0.2% and October was down 1.5%, based on more complete data. The composite index ended 1982 off 6.1% from December 1981.

CONSUMER INSTALLMENT CREDIT

At year end 1982, consumer installment credit outstanding amounted to $343.4 billion before seasonal adjustment. Led by automobile credit, the December increase was $2.19 billion after seasonal adjustment, following a $2.52 billion gain during November and a decline of $0.32 billion in October. The December increase was equivalent to almost an 8% annual rate of growth. Growth in consumer installment credit for the year was 3.5% with an annual rate of growth in the fourth quarter of over 5%.

PRICE INDEXES

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.3% in December, on a seasonally adjusted basis. This decline follows an increase of only 0.1% in November and, with March 1982, was only the second decline in the seasonally adjusted index since August 1965. Primary responsibility for the decrease in the overall index was the decrease in the housing index (0.8%), due to a sharp drop in mortgage interest rates. The apparel and upkeep and the food and beverage components also registered declines, down 0.4% and 0.1%, respectively. Before seasonal adjustment the CPI-U declined 0.4% in December to 292.4 (1967=100).

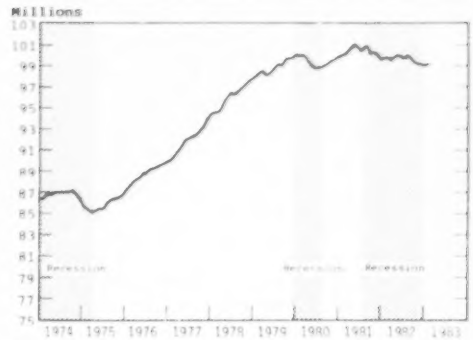
For the twelve months ended in December, the CPI-U rose 3.9%; this compares with a rise of 8.9% in 1981 and is the smallest December-December rise since the 3.4% in 1972.

EMPLOYMENT

Unemployment declined in January after seasonal adjustment and the number of nonfarm jobs increased. A new overall unemployment rate introduced with the January data, which includes the resident Armed Forces in the labor force, was 10.2%, down from 10.7% in December. The unemployment rate for all civilian workers was 10.4%, down from 10.8% in December. Total employment was unchanged in January, seasonally adjusted, at 100.8 million. Nonfarm payroll employment rose by 340,000. Additionally, both the total private and factory workweeks advanced sharply. Within the industry groups that have been most severely hit by the recession, manufacturing and construction, jobless rates declined during January by 1.8% and 2.0%, respectively.

Total Civilian Employment

By Months (Seasonally Adjusted) 1974-1983



Source: Department of Labor

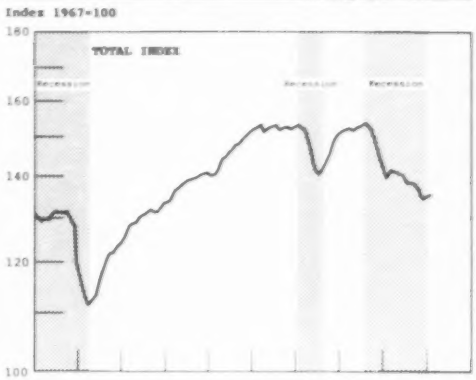
PERSONAL INCOME

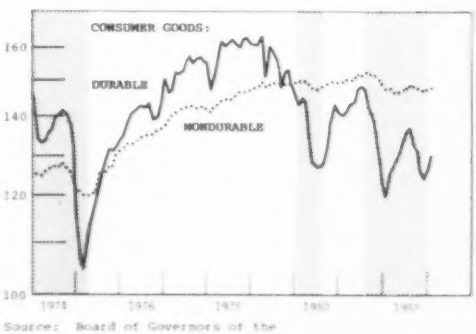
In December, personal income increased $15.5 billion to a seasonally adjusted annual rate of $2,636.8 billion. Personal outlays increased $6.3 billion to $2,106.4 billion. In November, personal income increased $9.8 billion and personal outlays increased $22.9 billion.

For 1982, personal income increased 6.4%, compared with an 11.8% increase in 1981. Disposable personal income (DPI) increased 7.1% in 1982; it increased 11.2% in 1981. In real dollars, DPI increased 1.1% in 1982 and increased 2.5% in 1981. As measured by the personal consumption expenditure implicit price deflator, prices increased 5.9% in 1982 compared with an 8.6% increase in 1981. In 1982 the saving rate was 6.5%, in 1981 it was 6.4%.

Index of
Industrial Production

by months (seasonally adjusted) 1974-1983





Source: Board of Governors of the Federal Reserve System

INDUSTRIAL PRODUCTION

In January, industrial production increased by an estimated 0.9% after a revised 0.1% gain in December. In both months large increases occurred in the output of automotive products and defense and space equipment. In January the production of construction supplies and basic metals, particularly steel, also advanced sharply. At 136.2% of the 1967 average, industrial production in January was 11.5% below its latest high in July 1981 but 1% above the November 1982 low.

Output of consumer goods rose 0.9% in January due to autos and home goods production. Output of nondurable consumer goods edged up with increases in food and clothing partially offset by a decline in consumer energy products.

Gregory D. Luetscher

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the sample companies, consumer receivables were up 98 percent 1977-81 from $38 billion to $75 billion. Personal loans rose 66 percent over the period and automobile credit increased 145 percent. Based on Federal Reserve Board estimates of credit outstanding at all consumer creditors, the finance company share of total consumer credit outstanding rose from just under 20 percent in 1977 to more than 27 percent in 1981 and 1982.

Within the finance company industry, possibly the most noteworthy trend in the consumer portfolio during these years (beyond overall growth) is the switch from unsecured to secured lending. For example, the chart shows retail automobile credit increasing from 47 percent to 58 percent of sample companies' gross consumer receivables 1977-81. Likewise, secured second-mortgage personal loans rose from 6 percent of gross receivables to 17 percent. In contrast, unsecured personal loans - long a staple of the consumer finance industry - dropped from 33 percent to 15 percent. By 1981 unsecured personal loans totalled less than second mortgages for the first time in the industry's history. Moreover, "other" consumer receivables, including (secured) mobile home credit but dominated by (in effect unsecured) smaller ticket durable goods and appliance credit, fell from 14 percent to under 10 percent of gross consumer receivables 1977-1981.

There are many reasons for the recent increase in finance companies' secured lending relative to unsecured. One is the high cost of funds in the past few years that has increased the attractiveness of making larger loans since larger loans carry less overhead expense per loan dollar. Generally, before lenders make large loans they want collateral of some sort. Another reason for increased secured lending is consumers' enhanced real estate equity due to inflation in real estate values. Higher equity permits its use as security. Since large, secured loans often are available at lower cost than unsecured credit, consumers frequently prefer the second mortgage approach. Another reason is the rapidly escalating bankruptcy losses on unsecured credit since the 1978 revisions to the Federal Bankruptcy Code (see Finance Facts for December 1982). All consumer creditors' losses due to personal bankruptcies are estimated as high as $6 billion per year 1981-82. In this environment it is not very surprising to see creditors trying to minimize their exposure on unsecured credit.

Thomas A. Durkin

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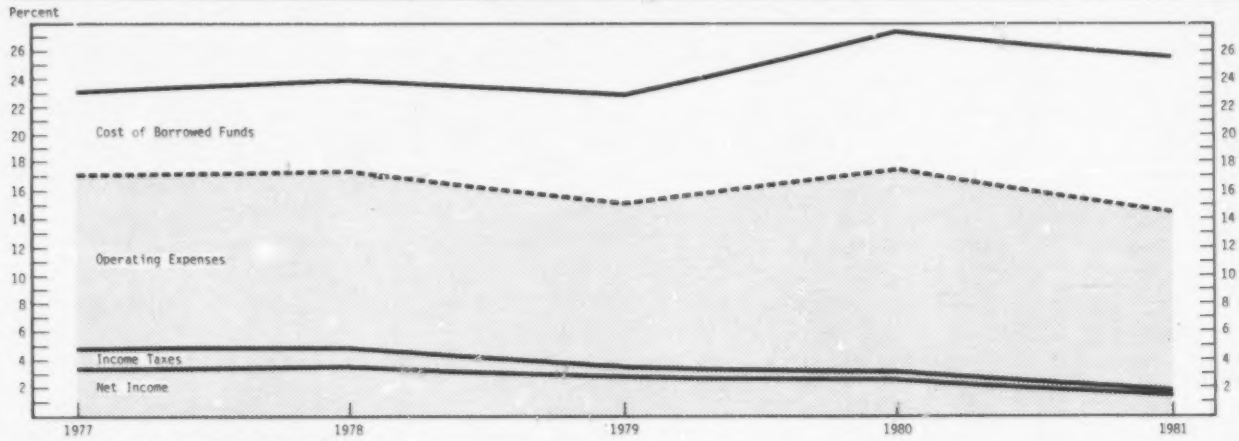
FinanceFacts

A Monthly Publication on Consumer Financial Behavior MARCH 1983

Gross Income, Expenses, and Net Income of Personal Loan Companies
as a Percent of Receivables
1977-1981



American Financial Services Association Chart
Source: American Financial Services Association

The sharp fluctuations in market interest rates in recent years have increased public attention to the course of financial markets and the behavior of financial institutions. Most recently, the sharp declines in short-term market rates since the summer of 1982 have raised questions in many newspapers, and even in Congressional hearings, about spreads between consumer credit rates and lenders' costs of funds. Consumer creditors, so the argument goes, have systematically widened consumer credit spreads to cover their shaky loans to distressed business firms and foreign governments. Unfortunately, this view overlooks much of the economic theory of interest, and ignores available evidence on the operations of credit markets.

Rather than concentrating on the complexities of interest-rate theory, though, this month's Finance Facts studies the widening-margin question by examining the lending spreads of finance companies making consumer personal loans. Data have been provided by 26 large companies of the American Financial Services Association that concentrate on personal lending. In 1981 more than 77 percent of the receivables of these companies were in the form of personal loans to consumers, and together they held 57 percent of Federal Reserve Board estimates of finance company personal loans outstanding nationwide. Because of their importance

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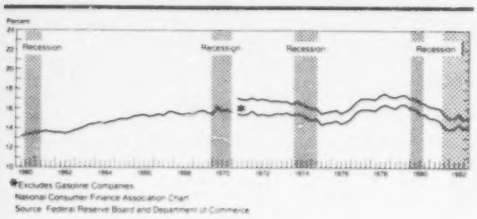
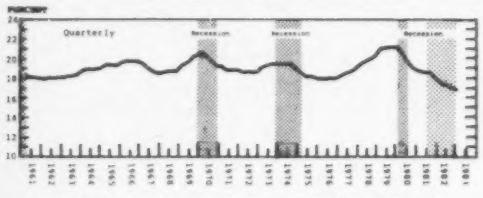
Ratio of Repayments of Consumer Installment Credit to Disposable Personal Income



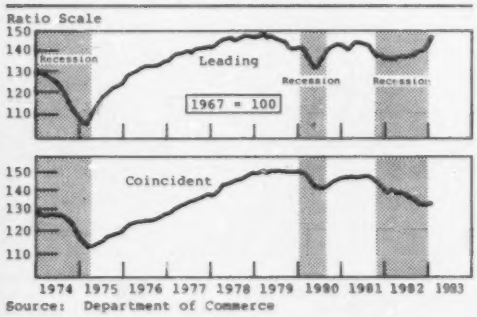
*Excludes Gasoline Companies
National Consumer Finance Association Chart
Source: Federal Reserve Board and Department of Commerce

Ratio of Consumer Installment Credit Outstanding to Consumer Sector's Liquid Assets



National Consumer Finance Association Chart. Source: Federal Reserve Board

Composite Indexes By Months 1974-1983



Source: Department of Commerce

CONSUMERS' FINANCIAL POSITION

Personal saving as a percent of disposable personal income dropped to 6% in the fourth quarter from 7% in the third. Consumer installment credit outstanding increased 1.2% in the fourth quarter following a 0.2% increase in the third. The ratio of installment credit repayments to disposable personal income rebounded to 15.4% in the fourth quarter from its low point of 14.9% in the third. Installment credit outstanding as a percent of consumers' liquid assets (currency, deposits and money market mutual fund shares) continued it's downward trend ending the year at 17%, down from 18% in the fourth quarter 1981 and 19% at the end of 1980.

CONSUMER INSTALLMENT CREDIT

Consumer installment credit increased $2.93 billion in January, on a seasonally adjusted basis. The December increase was a revised $2.42 billion. The January advance was equivalent to a 10.5% annual rate of growth, compared with an 8.5% rate in December and 4% for the entire year 1982. The bulk of the January increase in outstandings was accounted for by the large "other" category - primarily personal cash loans and sales finance contracts for non-automotive goods - amounting to $2.18 billion. The strongest component in December was auto credit but the January increase was less than $250 million. At the end of January 1983 consumer installment credit outstanding amounted to $343.4 billion before seasonal adjustment.

ECONOMIC INDICATORS

The composite index of leading indicators increased 3.6% in January to a level of 146.3 (1967=100). The index increased 0.4% in November and 0.8% in December. (The data have been revised back to 1948. The last revision was in 1979.) The leading index has now increased for nine of the past twelve months and is at its highest point since June 1979. Of the ten indicators available for January, nine increased. Contracts and orders for plant and equipment in 1972 dollars was the only declining indicator. If the January increase is not substantially revised downward next month it will be the largest one month gain since before 1974.

The composite index of coincident indicators, which is a monthly approximation of aggregate economic activity, increased 0.6% in January to a level of 132.8 (1967=100). The index decreased 0.2% in December.

Gregory D. Luetscher

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CONSUMER SECTOR INDICATORS

	1980 IV	1981 IV	1982 I	1982 II	1982 III	1982 IV
EMPLOYMENT, INCOME, AND SPENDING						
Employment - Household Survey 1/	99,515	100,087	99,660	99,720	99,605	99,135
Disposable Personal Income 2/	$ 1,902.9	2,101.4	2,117.1	2,151.5	2,198.1	2,227.1
Personal Consumption Expenditure 2/	$ 1,745.8	1,884.5	1,919.4	1,947.8	1,986.3	2,031.5
Personal Saving 2/	$ 105.3	158.6	139.1	144.3	152.0	135.5
CONSUMER INSTALLMENT CREDIT						
Total Outstanding 3/	$ 309.1	327.9	330.0	333.5	334.0	338.1
Percent Change	1.2	0.4	0.6	1.1	0.2	1.2
Ratio to Consumers' Liquid Assets (%)	19.0	18.0	17.7	17.6	17.2	17.0
Ratio: Repayments to Disposable Personal Income (%)	16.3	15.1	15.1	15.6	14.9	15.4
Market Share (%)						
Commercial Banks	46.9	44.8	44.8	44.2	44.0	44.0
Finance Companies	24.5	26.9	27.4	27.8	27.7	27.9
Credit Unions	14.1	13.8	14.0	13.8	13.9	13.9

1/ Excludes Resident Armed Forces. Thousands, seasonally adjusted quarterly average
2/ Billions, seasonally adjusted annual rate
3/ Billions, seasonally adjusted

Source: Federal Reserve Board, Bureau of Labor Statistics, U.S. Department of Commerce, AFSA.

The above data are updates and revisions to data last presented in the December 1982 issue of Finance Facts. Estimates are revised periodically by the statistical agencies to incorporate methodological changes and new source data.

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in the industry, these companies provide an excellent sample to use in studying industry trends.

The top line in the chart illustrates the gross revenues of these 26 large companies (including interest, insurance profits, and foreign and miscellaneous net income) in relation to their year-end domestic receivables 1977-81. The distance between the top line in the chart and the dotted line is these companies' cost of borrowed funds relative to domestic receivables. The widening space in the chart clearly illustrates the escalating costs of funds during these years. Subtracting costs of borrowed funds from gross revenues yields gross margins available for operating expenses (including losses), taxes, and profits. This gross margin in relation to receivables may be seen as the shaded area in the chart. Rather than a rising margin over time, the chart shows a relatively steady margin before a substantial drop in 1981.

At this time, 1982 results have not yet been received from member companies and compilations will not be available for some months. Nevertheless, subject to revision as the data become available, a few likely features seem predictable. First, borrowed funds costs in relation to receivables may have dipped somewhat in 1982, although this is not at all certain because rates remained very high in 1982 by historical experience. Second, it seems likely that firms probably attempted to maintain or raise charges wherever possible in 1982 in order to restore gross margins to historical levels. Of course, increasingly competitive personal loan markets may have forestalled this possibility for many companies. Thus, gross margins probably did not widen very much in 1982. Third, it seems reasonable that the sharp cost cutting and movement toward secured lending that characterized 1981 continued in 1982 (see Finance Facts for January 1983). As a result of all these changes, net profit probably improved somewhat in 1982.

Nonetheless, available evidence on finance companies does not support the hypothesis that they have kept rates high to widen margins compared to historical experience. Higher funds costs have forced finance companies to look for new revenues in recent years, but margins still have narrowed rather than widened. While it seems likely that firms in 1982 probably attempted to increase margins over the year before, 1981 margins were very narrow by historical standards, and it is not at all clear that firms would have been able to widen them very much. As a result, it seems probable that cost cutting continued in 1982 along with maintenance of the longer-term trend away from costly unsecured lending.

Thomas A. Durkin

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FinanceFacts

A Monthly Publication on Consumer Financial Behavior APRIL 1983

Some Observations on Financial Institutions

Technology, high interest rates, and emergence of new financial products have renewed the old debate over the role of government in the American financial system. Proposals for deregulation, reregulation, and "level playing fields" dominate the financial press. Even among the public at large there is heightened awareness of developing changes in the nation's financial structure. Because of the widespread interest in the evolving financial system, from time to time Finance Facts will offer some random observations on financial institutions and markets.

In a large, complex economy like that of the United States, there constantly are participants - including individuals, businesses, and governments - who have resources available beyond their current spending needs and who want to invest them. Likewise, at any time there are others in the economy who have additional needs for current funds and who want to borrow. Together these needs provide an economic role for financial institutions in the economy - to facilitate the transfer of funds.

Essentially, a financial institution facilitates funds transfers by behaving in either of two ways: 1) by serving as a broker who brings together the lender and the borrower, or 2) by becoming a "financial intermediary." A financial intermediary is simply a financial institution that truly stands in the middle. It borrows on its own account from those who supply the funds and then it lends the funds (maybe in different amounts, for different maturities, or with different risk characteristics) to those who need them. For providing this intermediation service the financial institution earns a profit. It is clear that to earn its profit the intermediary's services must be useful to both the suppliers and users of funds. If the services were not useful or attractive, then borrowers and lenders would deal directly with one another, possibly employing a broker.

There are many examples of financial intermediaries in the American economy. Probably the best known are the commercial banks, but there are also thousands of savings and loan associations, savings banks, credit unions, finance companies, life insurance companies, pension funds, and mutual funds. All are regulated to varying degrees under numerous Federal and state laws and by hundreds of Federal and state regulatory bodies and agencies. Especially since the Great Depression of the 1930's, restrictions on which kinds of institutions can provide which kinds of intermediation services have been an important part of this regulatory apparatus.

However, even if there were not so many governmental restrictions on the activities of the various types of financial intermediaries, it is not at all clear that all financial institutions would be the same or that financial services would be provided only by a few giant institutions. A number of economic factors suggest otherwise.

First, differences in management abilities and expertise - part of what economists refer to as "information cost differences" - inevitably are going to lead to specializations. There likely will always be financial institutions that specialize in specific services to consumers, to farmers, to small businesses, or to multinational corporations. Even if some firms become large enough to develop multiple specialties,

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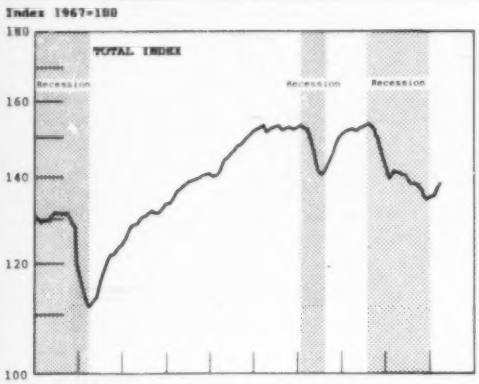
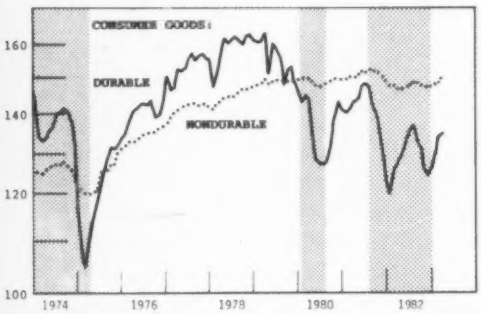
Index of
Industrial Production
by months (seasonally adjusted) 1974-1983





Source: Board of Governors of the
Federal Reserve System

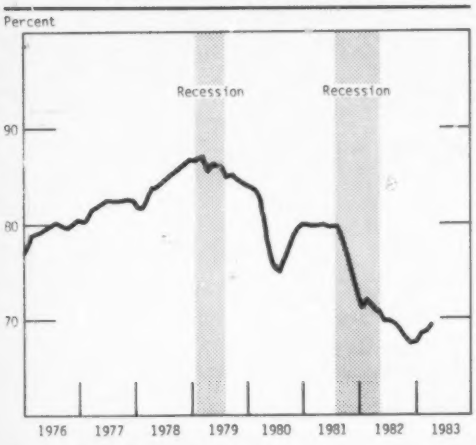
INDUSTRIAL PRODUCTION

Industrial production increased 1.1% in March after rising 0.3% in February and increasing 1.5% in January. In March, large gains were registered in the output of construction supplies, durable and nondurable materials and consumer goods other than autos and appliances. The index, at 139.1 (1967=100) in March, has risen more than 3% from its November low. This increase reflects significant gains in the output of automotive products, construction supplies and durable materials (especially steel). Production of consumer goods rose 0.8% in March for the fourth consecutive monthly gain. Gains in the output of nondurable consumer goods were widespread.

GROSS NATIONAL PRODUCT

Real gross national product increased 3.1%, or $11.3 billion, in the first quarter of 1983 according to preliminary estimates. (All quarterly estimates are seasonally adjusted annual rates). In the fourth quarter of 1982, real GNP declined 1.1%, or $3.9 billion. Current-dollar GNP increased 9.1%, or $68.5 billion, in the first quarter while prices as measured by the GNP implicit price deflator increased 5.8%. In the fourth quarter, current-dollar GNP increased 2.6%, or $20.0 billion, while the GNP implicit price deflator increased 3.7%. The increase in first-quarter real output occurred as inventory liquidation continued, but at a lower rate than in the fourth quarter.

Capacity Utilization -
Total Manufacturing



Source: Federal Reserve Board

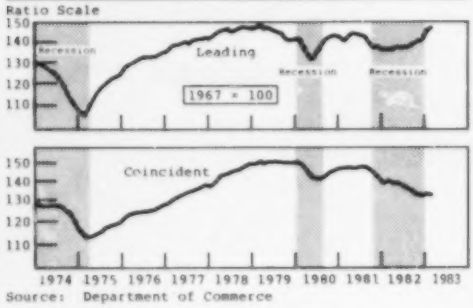
CAPACITY UTILIZATION

Capacity utilization in manufacturing rose 0.7 percentage point in March to 69.4% reflecting widespread increases in activity among manufacturing industries. Producers of industrial materials gained 0.8 percentage point in March, operating at 68.5% of capacity, resulting mainly from strong advances in the production of durable materials - especially metals, equipment parts and parts for durable consumer goods. The operating rate for the motor vehicles and parts industry decreased a little but remained well above the fourth quarter level. Producers of durable goods materials posted a third monthly sizable gain in capacity utilization in March, up 1.7 percentage points to 63.2%. The rate of nondurable goods materials was up a more moderate 0.7 percentage point to 73.3%.

LEADING ECONOMIC INDICATORS

The composite index of leading indicators increased 1.4% in February to a level of 148.3 (1967=100) on a preliminary basis. Based on more complete data, the index increased 3.5% in January and 1.1% in December. The preliminary estimate for January had been a 3.6% increase. The February increase was the sixth consecutive increase and the ninth increase in the past twelve months and places the index at a point exceeded only in March 1979. Of the ten indicators available for February, seven increased and three declined. The composite index of coincident indicators, which is a monthly approximation of aggregate economic activity, declined 0.2% in February to a level of 133.2 (1967=100). The index increased 1.1% in January and decreased 0.2% in December, based on more complete data. The preliminary estimate for January had shown an increase of 0.6%.

Composite Indexes By Months
1974-1983



Source: Department of Commerce

CONSUMER INSTALLMENT CREDIT

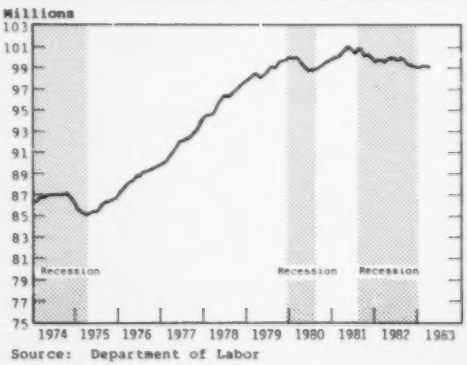
In February, consumer installment credit outstanding increased $1.74 billion on a seasonally adjusted basis. In January, the increase was $2.93 billion. The February rise was equivalent to a 6% annual rate of growth, down from the 10.5% rate in January but still above the 4% annual rate for the full year 1982. The category having the largest contribution to the February increase was the "other" category (primarily personal cash loans and non-automotive sales finance contracts), up $1.35 billion. This category also showed the strongest rate of increase in January. Automobile credit growth remained near the very moderate January level and revolving credit showed virtually no growth in February.

EMPLOYMENT

Both employment and the rate of unemployment were about unchanged from February to March, on a seasonally adjusted basis. The overall unemployment rate, including resident Armed Forces, was 10.1% and the rate for civilian workers was 10.3%, both near the February levels but about half a percentage point below their December highs. Total employment remained at about 100.8 million. Civilian employment was at about 99.1 million and has shown little movement since last October. Since last March the civilian labor force has grown by about 1.1 million.

Total Civilian Employment

By Months (Seasonally Adjusted) 1974-1983



Source: Department of Labor

Gregory D. Luetscher

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this does not mean they will be able to dominate the market unless they can provide the services at lower cost. Thus, costs and economies of scale are important considerations for market structure.

Second, there simply is no evidence that many financial services, including consumer financial services, are subject to significant operating cost economies of scale (cost advantages for larger institutions). As a result, larger institutions cannot drive out smaller ones. Thus, we see, for example, smaller banks and finance companies existing and thriving alongside larger ones.

Third, on the demand side, it is by no means clear that everyone wants to deal solely with giant financial department stores instead of small specialists any more than they want to deal solely with giant retailers to the exclusion of boutiques. Many users of financial services probably care more about the price and the quality of the services than about whether they can satisfy all their financial needs with one provider.

In sum, there are powerful economic factors suggesting that even in a deregulated environment where all financial institutions could freely invade others' markets there would still be a diversity of providers of financial services. Neither cost nor demand factors argue that loosening of current governmental restrictions would inevitably produce giant conglomerates that could eliminate all other financial intermediaries from the market. Rather, in a deregulated environment there likely would be some large diversified institutions that would be subject to competition from smaller specialized firms. Neither type would be able to eliminate the other. The public would be able to choose among the providers of financial services and financial markets would be more competitive. Consequently, in evaluating the arguments concerning financial deregulation, it seems that public policy makers should carefully examine the benefits of enhanced competition.

Thomas A. Durkin

A1615-1 4/2/83

FinanceFacts

A Monthly Publication on Consumer Financial Behavior MAY 1983

Some More Observations on Financial Institutions

As discussed in last month's Finance Facts, financial intermediaries exist because they provide important financial services to both suppliers and users of funds. These services certainly appear to have proven useful to consumers, since the largest supply of intermediated funds arises from the household sector of the economy.

Total assets of the household sector have risen tremendously since World War II, the period for which detailed information is available. The table on page 3, containing estimates by the Flow of-Funds Section of the Federal Reserve Board's Division of Research and Statistics, indicates that the household sector's total assets grew from $687 billion at year-end 1945 to almost $11 trillion at the end of 1982. Of course, much of the apparent increase is due to inflation, but even in constant dollars household sector assets almost tripled in the post-war period through 1982 (line 4 of the table).

Lines 5 and 6 of the table show that as household assets have increased over time, the shares flowing through intermediaries have also increased. From 23 percent in 1945, the portion of total assets which were intermediated rose to almost 30 percent by 1982. Relative to financial assets alone, intermediated financial assets rose steadily over the postwar period, up from 28.3 percent in 1945 to 45.2 percent at the end of 1982. Thus, while armchair analysis might initially suggest that total asset growth would lead to a proportionally smaller role for intermediaries as households grow more financially sophisticated, this presumption is not square with the facts. Financial institutions have intermediated more household resources over time, proportionally as well as absolutely.

As with any economic phenomenon, the steadily increasing importance of financial intermediaries to the household sector arises from both supply and demand effects. Slowly increasing income and wealth have caused households to demand productive outlets for savings. However, the consumer or household sector's definition of productive includes more than just nominal return. Consumers demand a variety of attributes from their savings instruments, and this has caused financial institutions to offer a wide variety of products. The closer matching of products to needs, along with higher nominal yields over time, has raised consumers' returns from the services of intermediaries. These changes enabled the institutions to enlarge their share of the household-sector market.

Consumers, of course, save and hold assets for a variety of reasons including transactions, precautionary, speculative, old age, and estate motives. Most savers save for all these reasons and more. However, when they decide to save, consumers' second decision is to choose the asset for holding the saved wealth. Nominal yields are important, but households also demand safety and liquidity. Intermediaries offer yield, safety and liquidity in varying combinations on their liabilities.

Safety or risk reduction appears paramount to the household sector, and intermediaries supply safety by offering diversification. Asset diversification would be difficult or impossible for many households, but through an intermediary the benefits of diversification are available. The intermediary simply

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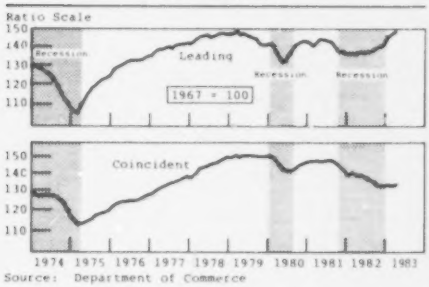
LEADING ECONOMIC INDICATORS

Composite Indexes By Months
1974-1983



Source: Department of Commerce

The composite index of leading indicators increased 1.5% in March to a level of 149.8 (1967=100) according to preliminary data. Based on more complete data the February estimate remained unchanged with an increase of 1.4% and the January increase was revised slightly downward to 3.2% from 3.5% as reported last month. This index has now been increasing every month since August of last year.

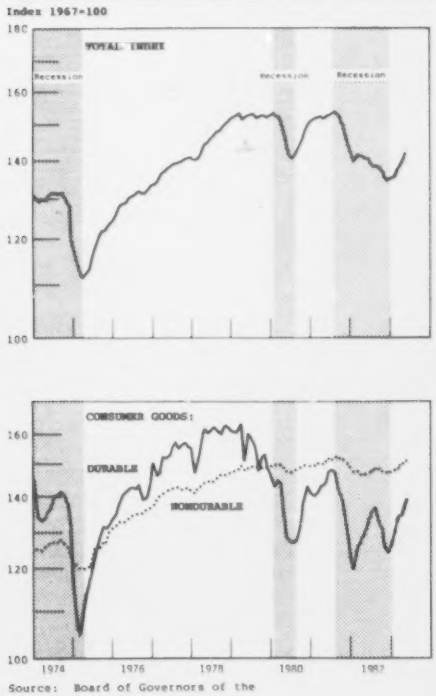
The composite index of coincident indicators, which approximates aggregate economic activity, increased 0.7% in March to 134.0 (1967=100). This index declined 0.5% in February and increased 1.3% in January.

CONSUMER INSTALLMENT CREDIT

Consumer installment credit outstanding in March increased $2.58 billion, after seasonal adjustment to $345.4 billion, up from a revised $0.74 billion in February. These increases were equivalent to annual growth rates of 9% in March and 2.5% in February. For the first quarter of 1983, the annual rate of growth was 7%, compared with 4% for the full year 1982.

Auto credit increased $1.22 billion and revolving credit rose $1.18 billion. Both accounted for most of the gain in the total. They had recorded small declines in February.

Index of
Industrial Production
by months (seasonally adjusted) 1974-1983



Source: Board of Governors of the
Federal Reserve System

INDUSTRIAL PRODUCTION

Industrial production in April increased an estimated 2.1% following advances of 1.2% in March, 0.4% in February and 1.6% in January. Gains in output in April were widespread and large advances occurred in durable and nondurable materials production. After the April increase, the level of the total index stood at 142.6 (1967=100), almost 6% above the November 1982 low, but still about 7% below its July 1981 high.

The production of home durable goods advanced more than 3% as appliances and carpeting and furniture registered strong gains. Auto assemblies edged up to a 5.9 million unit annual rate in April, from a 5.8 million rate in March. Output of nondurable consumer goods increased 1.6% as all major components rose in April.

Gregory D. Luetscher

Household Assets, Selected Years
1945-1982

(Millions of Dollars)

	1945	1955	1963	1975	1980	1981	1982
1) Total Financial Assets[1/]	558.6	1025.7	1922.3	3494.4	6327.2	6686.7	7178.8
A) Intermediated	158.2	299.0	673.0	1520.6	2638.6	2914.8	3247.9
a) Deposits and Currency[2/]	106.0	171.5	377.1	945.3	1625.3	1824.2	1986.3
b) Life Insurance Companies	39.6	69.2	105.9	166.6	222.5	232.8	243.7
c) Pension Reserves	11.3	50.5	154.8	365.7	727.1	793.8	924.9
d) Mutual Fund Shares[3/]	1.3	7.8	35.2	43.0	63.7	64.0	93.0
B) Not Intermediated	400.5	726.5	1249.2	1973.6	3688.4	3771.8	3930.9
a) U.S. Gov't Securities[4/]	67.7	69.3	79.7	152.7	293.1	329.9	344.4
b) Equities[5/]	297.7	596.4	1056.3	1547.4	2934.0	2937.3	3011.4
c) Other[6/]	35.1	60.8	113.2	273.5	461.3	504.6	575.1
2) Tangible Assets	128.1	412.8	700.0	1835.0	3468.5	3746.6	3754.4
A) Residential	79.5	260.9	466.9	1250.0	2490.2	2693.9	2664.6
a) Land	11.7	37.8	101.8	276.2	585.8	615.1	599.8
b) Structures	67.8	223.1	365.1	973.8	1904.4	2078.8	2064.8
B) Consumer Durables	48.6	151.9	233.1	585.0	978.3	1052.7	1089.8
3) TOTAL ASSETS	686.7	1438.5	2622.3	5329.4	9795.7	10433.3	10933.2
MEMO ITEMS:							
4) Total Assets, 1967 dollars	1273.8	1793.8	2774.4	3309.6	3977.0	3829.0	3739.2
5) Intermediated Financial Assets Divided by Total Assets (%)	23.0	20.8	25.7	28.5	26.9	27.9	29.7
6) Intermediated Financial Assets Divided by Financial Assets (%)	28.3	29.2	35.0	43.5	41.7	43.6	45.2

Notes:

Parts may not add to totals due to rounding.

1/ Includes a small amount of financial assets of nonprofit organizations.
2/ Includes money market mutual fund shares.
3/ Excludes money market mutual fund shares.
4/ Includes Federal Agency issues.
5/ Includes equity in incorporated and unincorporated businesses.
6/ Includes state and local government securities, corporate and foreign bonds, open market paper and other miscellaneous financial assets.

Source: Board of Governors. Federal Reserve System.

(text continued from first page)

pools the limited funds of households and invests them in a diversified portfolio of assets. In contrast, liquidity, or ability to convert an asset rapidly into money at low cost, is demanded by households for some assets but not all. In particular, households require liquidity for transactions and precautionary-oriented savings, but much less liquidity is needed to satisfy old-age and estate motivations for asset holding. For this reason intermediaries offer both highly liquid products such as deposits and less liquid assets like life insurance and pension reserves. Ultimately, differences in managing the financial intermediaries providing short term and long-term products have given rise to the chief distinction among financial institutions dealing with consumers. Historically, at least, the financial institutions supplying the liquid products for consumer asset holdings have been known as depository institutions; the ones supplying the less-liquid products have been known as insurance-type intermediaries.

Thomas A. Durkin

American Financial Services Association

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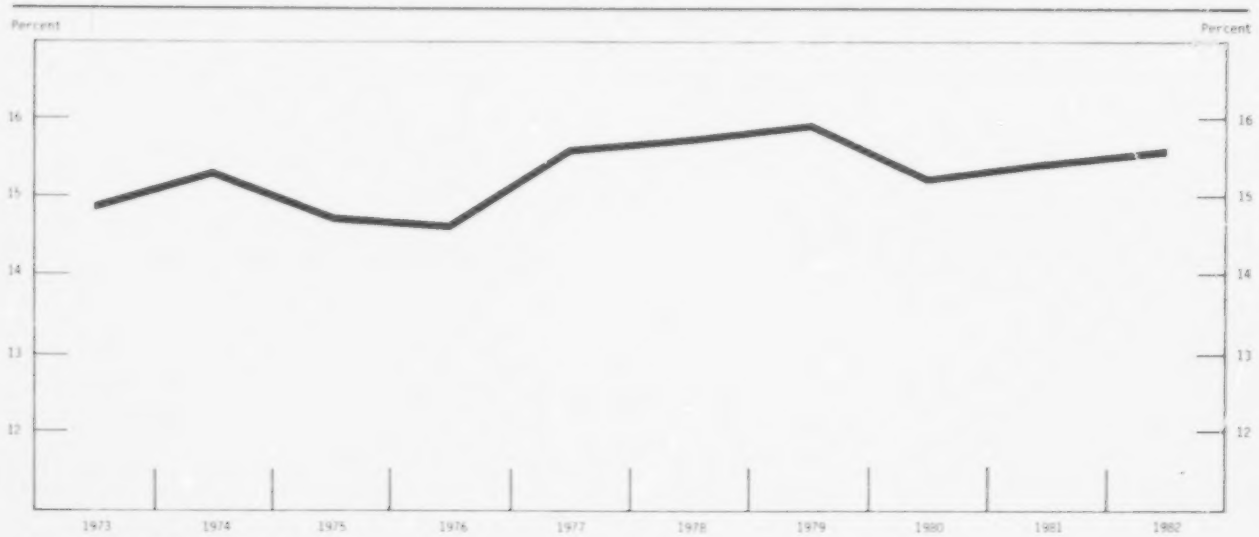
Total Debts as a Percent of Total Assets, Household Sector
1973-1982



American Financial Services Association Chart
Source: Federal Reserve System

As pointed out in last month's Finance Facts, household assets have risen sharply in the post World War II era. From $687 billion at the end of 1945, household sector assets climbed to almost $11 trillion at the end of 1982. Nevertheless, it seems the public at large devotes more attention to increases in households' debts than assets. Household liabilities have also risen in the postwar era, as we are constantly reminded by the media. Total household liabilities of only $34 billion in 1945 rose to $1.7 trillion at the end of 1982. The major components are home mortgages and consumer installment credit, equalling $1.1 trillion and $345 billion, respectively, in 1982.

In many ways more interesting than the gross totals of assets and debts is the relationship between them. The chart shows debts as a percent of assets over the past 10 years. Despite concern in some circles that houshold financial conditions have been deteriorating, the trend is almost imperceptible. Debts increased over the period, but assets increased about as rapidly on a percentage basis from a much higher starting point. As a result, the ratio of debts to assets remained roughly level over the period, ranging only narrowly from 14.5 percent in 1976 to 15.9 percent in 1979 before falling off again. The household sector's debt to assets ratio simply has not changed very much for many years. Stated conversely, the household sector's equity or net worth in its assets has remained approximately constant at 85 percent for the last decade.

Still, household borrowing is substantial, and the bulk of it is provided by financial intermediaries. The table on the back page provides distributions of sources

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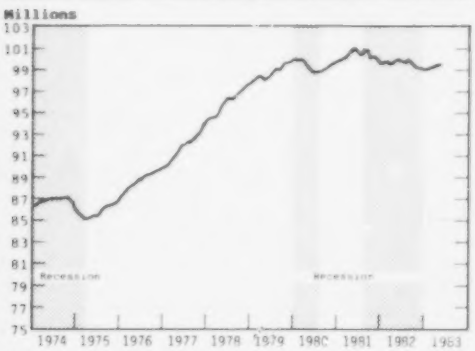
Total Civilian Employment

By Months (Seasonally Adjusted) 1974-1983



Source: Department of Labor

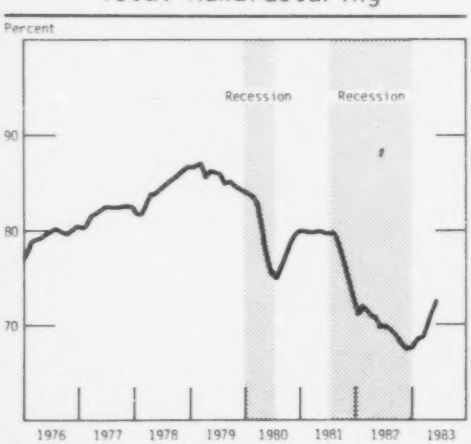
EMPLOYMENT

Employment rose in May and unemployment was little changed. May's unemployment figure including resident Armed Forces in the labor force was 10.0%, down from 10.1% in April. The rate for civilian workers was 10.1% in May, down from 10.2% in April. The number of persons on nonagricultural payrolls rose by 375,000 in May. Particularly strong growth took place in construction, manufacturing and services. Total civilian employment reached 99.6 million, seasonally adjusted, in May after a relatively large increase in April. Since last December's recession low of 99.1 million, employment has risen by almost half a million.

CONSUMER INSTALLMENT CREDIT

Consumer installment credit outstanding during April increased by $2.27 billion to $347.6 billion, seasonally adjusted, following a $2.58 billion increase in March. After a large increase in automobile credit in March of $1.22 billion, this category rose $0.69 billion in April. Growth in the large "other" category (personal loans, home improvement and other goods credit) picked up from the March pace, increasing $0.64 billion in April from an increase of $0.25 billion in March. Revolving credit expansion slowed somewhat rising $0.92 billion, but followed an increase in March of $1.18 billion that was the largest since June 1978.

Capacity Utilization - Total Manufacturing



Source: Federal Reserve Board

CAPACITY UTILIZATION

In May, capacity utilization advanced 0.7 percentage point to 72.0%. The rate for industrial materials also increased 0.7 percentage point in May, reaching 71.7%. Since the end of 1982 the manufacturing rate has risen an average of 0.9 percentage point per month while the materials rate has averaged an increase of 1.3 percentage points per month. Capacity utilization has risen particularly rapidly since December for textile, rubber and plastics and primary metals. Capacity utilization for producers of energy materials remained about unchanged in May.

Gregory D. Luetscher

CONSUMER SECTOR INDICATORS

		1981 IV	1982 I	1982 II	1982 III	1982 IV	1983 I
EMPLOYMENT, INCOME, AND SPENDING							
Employment: Household Survey [1/]		100,087	99,660	99,720	99,605	99,135	99,090
Employment - Population Ratio [2/]	%	58.5	58.1	58.0	57.7	57.3	57.1
Disposable Personal Income [3/]	$	2,101.4	2,117.1	2,151.5	2,198.1	2,224.3	2,247.2
Personal Consumption Expenditure [3/]	$	1,884.5	1,919.4	1,947.8	1,986.3	2,030.8	2,054.2
Personal Saving [3/]	$	158.6	139.1	144.3	152.0	133.4	131.9
CONSUMER INSTALLMENT CREDIT							
Total Outstanding [4/]	$	326.3	329.0	333.9	335.2	339.3	345.4
Percent Change	%	0.1	0.8	1.5	0.4	1.2	1.8
Market Share (%)							
Commercial Banks		44.7	44.6	44.4	44.3	44.2	44.2
Finance Companies		27.4	27.5	27.8	27.6	27.7	27.7
Credit Unions		14.0	13.9	13.8	13.8	13.8	13.7

1/ Excludes Resident Armed Forces. Thousands, seasonally adjusted quarterly average
2/ Civilian employment as a percent of the civilian noninstitutional population, seasonally adjusted quarterly averages
3/ Billions, seasonally adjusted annual rate
4/ Billions, seasonally adjusted

Source: Federal Reserve Board, Bureau of Labor Statistics, U.S. Department of Commerce, AFSA.

The above data are updates and revisions to data last presented in the March 1983 issue of Finance Facts. Estimates are revised periodically by the statistical agencies to incorporate methodological changes and new source data.

(text continued from first page)

of mortgage and consumer credit outstanding at year-end 1982. The largest mortgage lenders are the savings and loan associations followed by the Federal agencies and mortgage pools. In the installment credit area, commercial banks are the largest holders followed by finance companies and credit unions. However, finance companies have been growing more rapidly in recent years. Along with savings and loan associations they have seized market share from the other consumer creditors, particularly from commercial banks.

Thomas A. Durkin

Sources of Mortgage and Consumer Credit, Year-End 1982

	Mortgage Credit Outstanding on 1-4 Family Homes		Consumer Installment Credit Outstanding	
	Billions of dollars	Percent	Billions of dollars	Percent
Commercial Banks	$ 177.1	16.0	152.1	44.1
Savings and Loan Associations	400.6	36.3	13.9	4.0
Mutual Savings Banks	63.7	5.8	3.0	0.9
Finance Companies	1/	1/	94.3	27.3
Credit Unions	1/	1/	47.2	13.7
Life Insurance Companies	17.0	1.5	--	--
Federal and Related Agencies	258.8	23.4	--	--
Owned outright	76.7	6.9	--	--
Mortgage pools or trusts	182.1	16.5	--	--
Individuals and others	187.3	17.0	--	--
Retailers	--	--	30.2	8.8
Gasoline Companies	--	--	4.1	1.2
TOTAL	1,104.5	100.0	344.8	100.0

1/ Included in "Individuals and others"

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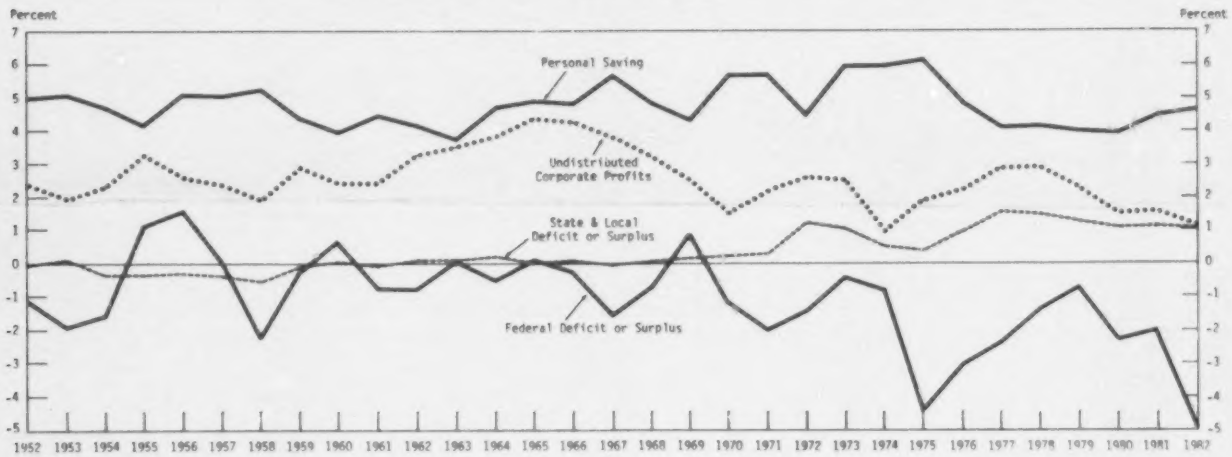
Saving by Sectors as Percent of GNP



American Financial Services Association Chart

Source: Department of Commerce

The economic recovery which began in December 1982 has now entered its eighth month. Although the recovery began somewhat sluggishly, the pace picked up in the spring and in many ways the upturn now resembles earlier post World War II recoveries at comparable stages. GNP, production, income, and employment all have jumped upward, and the rate of inflation has cooled (see pages 2 and 3). However, one important factor clouds what otherwise would be a favorable longer-term outlook: the prospect of huge Federal government budget deficits for the forseeable future.

Recessions and their aftermath always tend to increase Federal budget deficits. Recessions reduce Federal revenues because slower personal income growth coupled with declining corporate profits reduces the effectiveness of income taxes in raising revenues. At the same time, recessions raise Federal expenditures as unemployment compensation, food stamps, and other social programs to mitigate personal hardships swell spending totals. These aspects of economic policy, which tend automatically to increase the Federal budget deficit during recessions, are frequently referred to as "built-in fiscal stabilizers." Most observers believe such automatic changes in fiscal policy are useful in bringing the economy out of recessions.

The impact of recessions on Federal finance may be seen clearly in the chart. Although the Federal budget has been in deficit nearly every year in the past three decades, the largest deficits in relation to GNP have occurred during and immediately after recessions (1953-54, 1957-58, 1960-61, 1967, 1974-75, and 1980-82).

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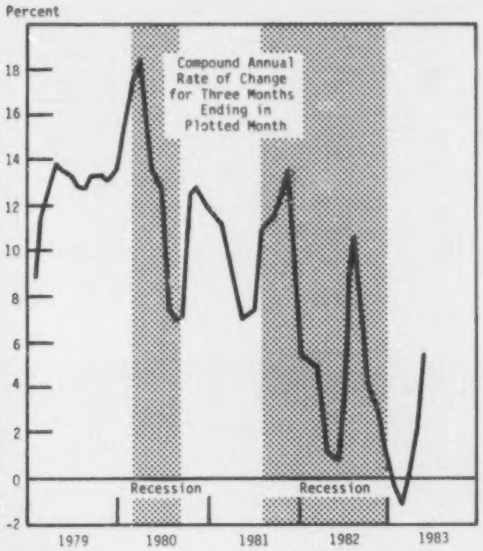
Change in Consumer Price Index

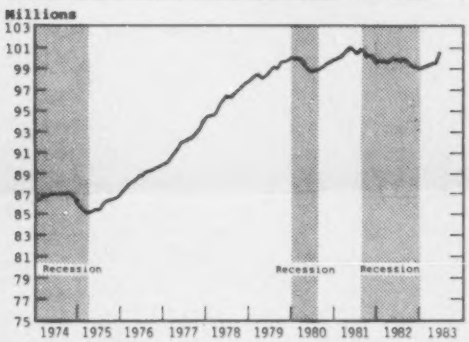
(All Urban Consumers, 1979-1983)



Source: Department of Labor

Total Civilian Employment

By Months (Seasonally Adjusted) 1974-1983



Source: Department of Labor

CONSUMER PRICES

The three-month compound annual rate of change in the Consumer Price Index for all urban consumers (CPI-U) took its largest jump of 1983 in May. The May increase measured 5.1%, compared with changes ranging between -1.2% (February) and +2.1% (April). This large recent jump probably in part prompted the Fed's July 14th announcement that it has been trying to control/slow money growth in order to keep inflation down as the recovery progresses. The unadjusted 12 month change figure of 3.5% since May 1982 reflects the progress made against inflation which this Fed action seeks to preserve.

CONSUMER INSTALLMENT CREDIT

Compared with an overall growth in consumer installment credit outstanding during 1982 of 4%, growth during 1983 has been much stronger. The seasonally adjusted 7% average first quarter figure was exceeded in April by an 8% annualized rate and in May by a 9.25% rate. The May figure represents $2.7 billion more outstanding than in April. The major contributor to the overall credit increase was the automobile category which increased almost twice as much as it had in April.

EMPLOYMENT

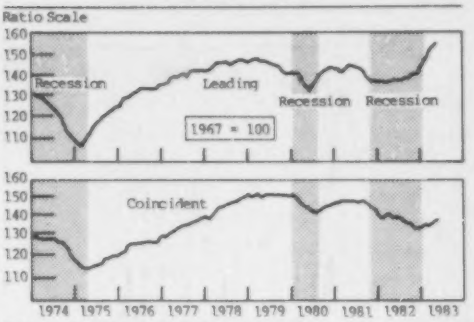
There was a significant increase in the number of persons employed in the U.S. in June, with the figure for civilian employment jumping a seasonally adjusted 1.2 million to a total of 100.8 million. At the same time, the number of civilian unemployed declined by 46,000 persons to just under 11.2 million. Proportionally, unemployment in both the total labor force (including resident armed forces) and in the civilian labor force declined, the associated figures being 9.8% and 10.0% respectively, down from 10.0% and 10.1% in May. The June figures show a continuation of the declining unemployment rates of 1983.

ECONOMIC INDICATORS

The composite index of leading economic indicators, designed to indicate the future direction of economic activity, was estimated by the Department of Commerce to have risen in May by 1.2%, bringing the index up to 154.5 (1967=100). The increases for March and April were revised to 2.0% and 1.4% respectively. The indicator contributing most to the May increase was net business formations, with all others except average workweek, change in sensitive materials prices, change in credit outstanding and vendor performance rising as well.

The index of coincident indicators, a measure of the level of current aggregate economic activity, rose also, by 1.1%, to a level of 137.3 (1967=100).

Composite Indexes By Month
1974-1983

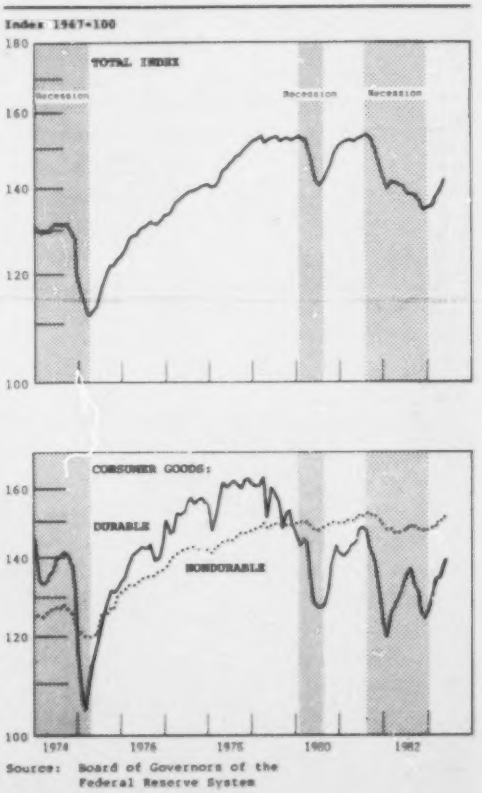


Source: Department of Commerce

PERSONAL INCOME

After a large increase of $30.1 billion (1.1%) in May, personal income in current dollars rose a moderate $13.4 billion (.5%) in June. Consumption expenditures, also in current dollars, increased 1.0% in June, after 1.8% and 1.6% increases in April and May. The fact that the increase in expenditures is greater than that in income may suggest a recovery mentality among consumers, which if continued should feed the recovery further. This tendency to spend is even more evident in constant dollar figures. While constant dollar disposable income rose by .1% and .5% in April and May respectively, spending, rose by .9% and 1.3%.

Index of
Industrial Production
by months (seasonally adjusted) 1974-1983



Source: Board of Governors of the Federal Reserve System

INDUSTRIAL PRODUCTION

The estimated change in industrial production for June matches the figure published for May, both increases being 1.1%. The largest component change contributing to the June increase was the 2.9% growth in production of durable goods, and the smallest was in nondurable goods, measuring .5%. Overall production is up 5.2% from a year ago, up 8.2% from the level at the trough of the recession last November, and about 5% below the high before the recession, which occurred in July 1981. The Federal Reserve characterizes the increase in production so far as "about typical for a postwar recovery."

Ysabel M. Burns

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However, after every recession trough before 1982 the magnitude of the Federal deficit quickly peaked and headed again toward balance. While balance has rarely been achieved (and not at all in the past dozen years), the changes in direction and magnitude are apparent in the chart. The only exception to this rule is the current situation in which deficits are projected to remain very large for many years.

The positive aspect of deficit spending is that it can help the economy emerge from recessions. The negative side, of course, is that the deficits must be financed either out of savings or by inflationary money creation. Because both the Administration and the Federal Reserve maintain that the latter is inappropriate, borrowing the public's savings becomes the only financing alternative.

The chart shows the components of savings by sector of the economy as a percent of GNP over the period 1952-82. Excluding the Federal government, total net savings consists of personal savings, undistributed corporate profits, and the surpluses of state and local governments. Adding these three components, total (non-Federal) net savings ranged from a low of 6.28 percent of GNP in 1960 (when the Federal budget was in surplus) to 9.41 percent of GNP in 1973. The problem is that the Federal deficit accounted for almost three quarters of (non-Federal) net savings in 1982 and will take almost as large a share in 1983. Such financing may be accomplished without too much economic disruption during recessions when corporate, home mortgage, and consumer borrowing demands are moderate, but clashes with private credit needs are likely if large deficits continue as the economy expands. So called "crowding out" of private borrowers could occur with continued mammoth deficits, even if private saving expands somewhat. Unfortunately, the impact of any crowding out would be on private capital formation. Higher real interest rates would lead to lower investment; and, ultimately, to lower growth in productivity and real incomes. Such an outcome would be very unfortunate and should be the chief concern of economic policy makers.

Thomas A. Durkin

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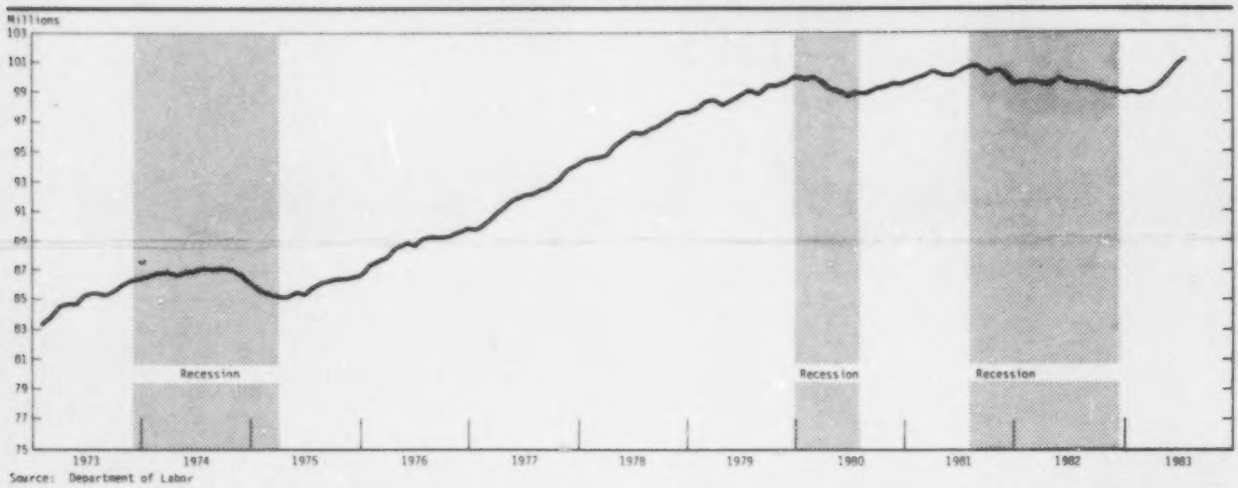
Total Civilian Employment

By Months (Seasonally Adjusted) 1973-1983



Source: Department of Labor

Defying the forecasts of many analysts who predicted the current cyclical upswing would be unusually slow, the expansion gained speed sharply in the second quarter. Real gross national product expanded at a 9.2% annual rate in the second quarter, up from a sluggish 2.6% growth rate in the prior period. Likewise, industrial production advanced at nearly a 20% annual pace March through July and unemployment fell. The unemployment rate for civilian workers declined to 9.5% of the labor force in July from its high of 10.8% in December and 10.3% as recently as March. Although temporary setbacks are always possible (and certainly not unprecedented historically), the unemployment rate should continue to decline through this year and next as the economy maintains its recovery.

Of course, at 9.5% of the civilian labor force, unemployment remains high by historical experience since World War II. Last year's 9.5% average unemployment is the highest of any year in the postwar period. Still, focusing solely on the (admittedly important) unemployment figure overlooks some interesting information on the resiliency of the American economy in general and its labor markets in particular. The chart shows that in July this year total civilian employment reached 101.3 million surpassing the previous all-time high of 101.0 million set in April 1981. Furthermore, the employment upturn following the recent recession has been more rapid than following the 1973-75 downturn. In the earlier recession total employment fell only 2.2%, but it took 10 months to regain its former peak. In the recent recession total civilian employment fell 1.9% but

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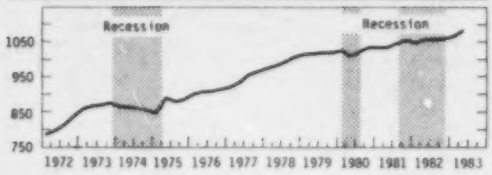
Real Disposable Personal Income
(Quarterly, Seasonally Adjusted Annual Rates)
1972 $ Billions



Source: Department of Commerce

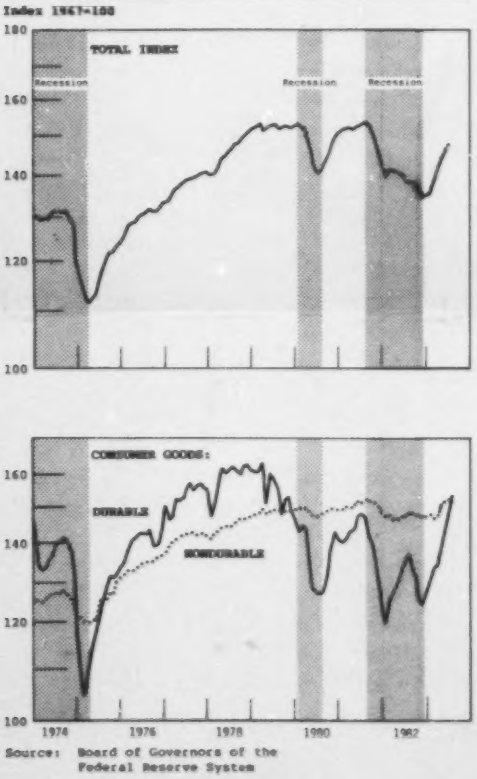
PERSONAL INCOME

Personal income increased in the second quarter of 1983 - by 0.7% in April, 1.2% in May and 0.5% in June. The increase in July was estimated at 0.6%. Dollar figures for the annualized amount of disposable personal income received were: $2,286.9 billion per year (April), $2,306.8 billion (May), $2,315.2 billion (June) and a preliminary $2,355.5 billion in July. These figures represent increases of 0.9%, 0.9%, 0.4%, and 1.7%. In July, personal outlays totalled $2,238.6 billion (annual rate), leaving savings at $116.8 billion, or about 4% of personal income.

CONSUMER INSTALLMENT CREDIT

Growth in consumer installment credit outstanding overall was stronger in June than it has been since September 1979, increasing by a seasonally adjusted $4.41 billion. Increases occurred in all types of credit, but were strongest in automobile and revolving credit, which grew at 17.7% and 22.2%, respectively. The June figure brings growth in the second quarter of 1983 to almost 11%, compared with 7% in the first quarter and only 4% in all of 1982. The total amount of consumer installment credit outstanding in June was $354.7 million of which $96.0 million, or 27.06% was held by finance companies.

Index of
Industrial Production
by months (seasonally adjusted) 1974-1983



Source: Board of Governors of the
Federal Reserve System

INDUSTRIAL PRODUCTION

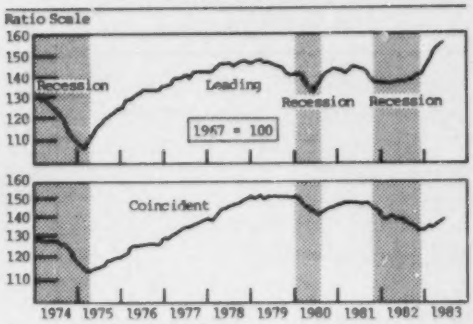
The index of total industrial production, seasonally adjusted, increased by approximately 1.8% in July. The index, at 148.6 (1967=100), is 10.2% above the low at the end of the recession in November 1982. Total industrial production is up 10.16% over the last year.

Production of consumer goods increased 1.7% overall, with durable and nondurable goods rising 3.4% and 1.1% respectively. The index levels for these two market groups were estimated at 154.2 and 153.9. Auto and household goods production were noted as particularly strong components of the growth in durable goods.

ECONOMIC INDICATORS

The index of leading economic indicators took quite a large jump in June, according to revised information released by the Department of Commerce this week, and rose only slightly in July by the preliminary estimate. The previously released June figure of 1.0% was revised to 1.9%, and the increase for July was estimated at 0.3%, signaling to some a "slowdown" in the current recovery. Considering the magnitude of the revision to the preliminary estimate for June, however, the revised July figure may suggest a more robust performance when it is released next month. The coincident index has risen more steadily over the past two months, showing increases of 1.1% in each.

Composite Indexes By Month
1974-1983

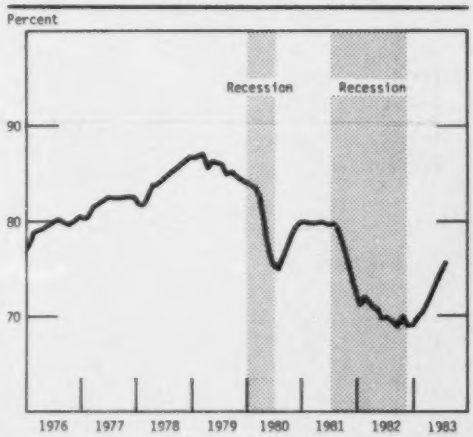


Source. Department of Commerce

CONSUMER PRICES

The Consumer Price Index for All Urban Consumers (CPI-U) rose a seasonally adjusted 0.4% in July, following an increase of 0.2% in June. The compound annual rate for the three months ended in July was 4.7%, and at its new level of 299.3 the index is 2.4% higher than one year ago. The strongest component changes contributing to the modest rise in the CPI-U were in grocery store food prices and prices of "other goods and services." Grocery store food prices fell for the second month in a row by 0.1% (following 0.6% in June). In the "other goods and services" category, prices rose 1.3%.

Capacity Utilization -
Total Manufacturing



Source: Federal Reserve Board

CAPACITY UTILIZATION

Capacity utilization in manufacturing, after seasonal adjustment, rose from 74.6% in June to 75.8% in July, continuing the improvement that has occurred throughout 1983 and reaching the highest level yet since the 1982 low of 68.8%, which occurred in November. Consistent with the large gains reported in production of durable goods above, especially in autos, utilization of domestic auto plants rose almost 7 percentage points to 77.3% - a four-year high.

Ysabel M. Burns

(text continued from first page)

took only 5 months after the February trough to regain its former high.

The chart shows that high unemployment rates in recent years do not result from utter failure of the American economy to produce new jobs over time. In fact, the total number of civilian jobs rose steadily 1975-79. Instead, recent high unemployment rates arise from a number of factors, some visible in the chart, but others not.

One factor is the rapidity with which the 1981-82 recession followed the 1980 downturn. Employment had only barely regained its earlier peak in 1981 before it was battered downward again toward the end of that year. Since the population and labor force kept growing, the unemployed proportion rose sharply. A second factor is the high labor force participation rate in recent years compared to historical experience. (The labor force participation rate is the proportion of the noninstitutional population over the age of 15 which has or is looking for a job.) On account of more working women and more two-earner families, the year-average civilian labor force participation rate rose above 64% for the first time in 1982, and at 64.3% in July 1983, remains near its postwar high for any month. As the participation rate rises, it exacerbates usual labor market pressures brought on by normal population growth. If a larger portion of the population wants jobs, employment must grow faster to keep unemployment from rising. A third factor is the labor force bulge caused by the last of the baby boom generation reaching employment age in the past half decade. Because unemployment rates are normally higher among teenagers, an increase in younger members of the labor force tends to increase unemployment, other things equal.

If severe recessions can be avoided in the mid 1980's, the unemployment picture should improve. Steady economic growth should generate new employment in the civilian economy. Growth in the participation rate should slow, especially if lower inflation makes fewer families feel the need for additional breadwinners. Finally, as the baby boomers reach their mid twenties, many will have gained skills and experience that will make them more productive and employable workers and less prone to unemployment.

Thomas A. Durkin

American Financial Services Association

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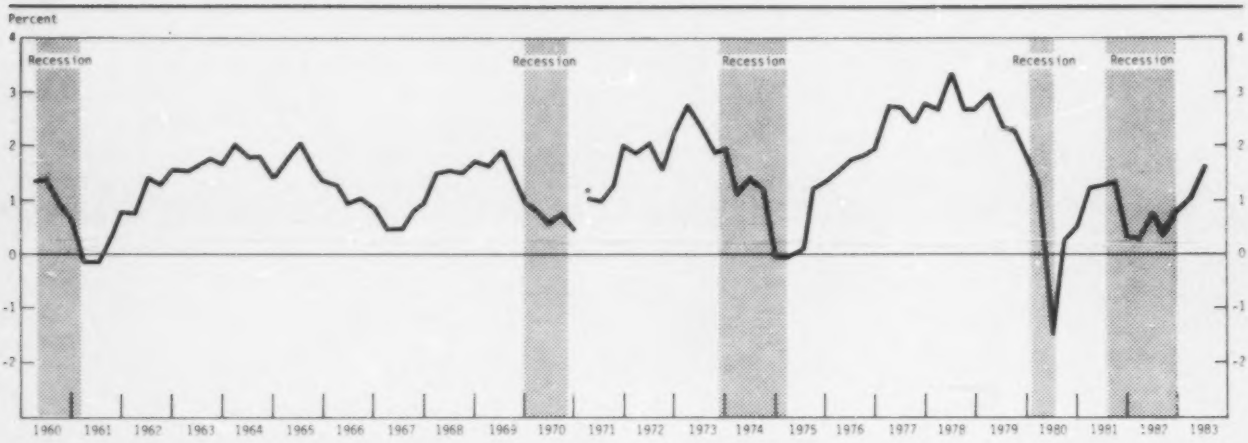
A Monthly Publication on Consumer Financial Behavior SEPTEMBER 1983

Ratio of Consumer Installment Credit Net Change to Disposable Personal Income
Quarterly Data



* Addition of gasoline companies in 1971.

American Financial Services Association Chart
Source: Federal Reserve and Department of Commerce.

Along with other economic indicators, consumer installment credit growth picked up sharply in the months since the end of the 1981-82 recession last November. After an actual decline in October 1982, consumer installment credit increased $2-3 billion in most months from November 1982 through May 1983 before jumping to a $4-5 billion rate of increase in June and July (the latest months with available data). The $4.84 billion increase in July was a record for one month. Much of the recent credit increases is associated with the pickup in automobile sales, but non-automotive credit has turned up as well. Revolving credit, which consists mostly of credit card credit, expanded at almost a 15 percent annual rate in July 1983 and the large "other" category that includes personal loans, sales finance contracts (other than for mobile homes), and home improvement loans increased at a 13 1/4 percent annual rate in July.

But rather than suggesting the onset of unusually rapid growth of consumer borrowing, the upturn in consumer credit in 1983 reflects normal cyclical patterns. As may be seen in the chart, the ratio of the quarterly net change in consumer credit outstanding divided by disposable personal income (income before taxes) normally picks up at the start of economic recovery. From approximately zero or a small negative level right around the end of a recession, this ratio typically picks up until slightly before the cyclical peak when it declines in advance of the next recession. This pattern has been very regular in the postwar era, including during the years prior to those in the chart. Even the false upturn in mid-1982 is consistent

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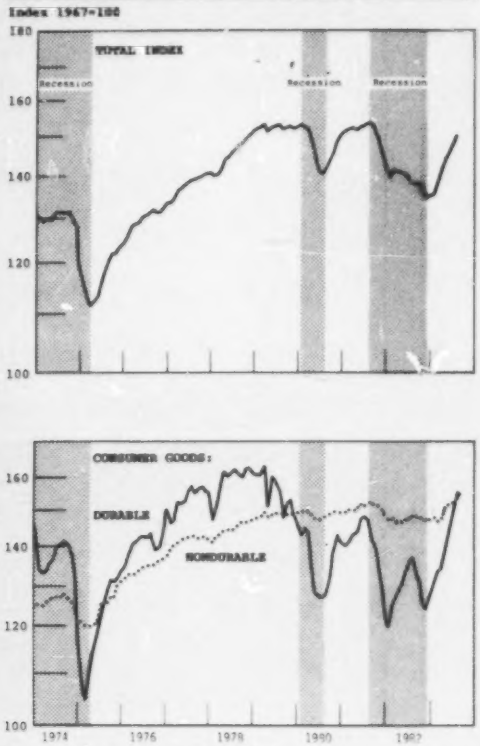
Index of
Industrial Production
by months (seasonally adjusted) 1974-1983



Source: Board of Governors of the Federal Reserve System

INDUSTRIAL PRODUCTION

Due largely to more moderate increases in output of autos and steel than occurred in July, the index of total industrial production rose at a rate estimated at 0.9 percent (after seasonal adjustment) compared with revised increases of 2.0 and 1.3 percent in July and June. The increase was led by gains in home goods and construction supplies, and most other product and materials groupings grew as well. The index, at a level of 150.5 (1967=100), has now recovered about eighty percent of the decline which occurred since the last high of 153.9 in July 1981. Output of consumer durable and nondurable goods both increased more moderately in August as well, rising 1.4 and 0.3 percent respectively, compared to increases in June of 3.1 and 1.3 percent.

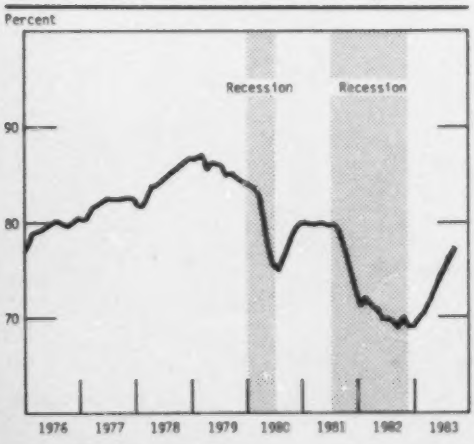
CONSUMER INSTALLMENT CREDIT

Consumer installment credit outstanding (seasonally adjusted) increased more in July - a 16.4 percent annual rate of growth - than it has since February of 1979. The dollar increase of $4.84 billion was a record jump, and brings total outstandings up to $359,571. Credit of all types except that for mobile homes grew at very high annual rates: automobile credit at 21.4 percent (17.7 in June, 11.9 in May), revolving credit at 14.8 percent (22.2 in June, 9.5 in May), and "other" credit at 13.2 percent (9.8 in June, 7.8 in May).

CAPACITY UTILIZATION

Capacity utilization in manufacturing rose in August although, like industrial production, at a slower pace than in recent months. Reaching a level of 76.7 percent, the increase was only 0.5 of a percentage point, the smallest increase since that in February of this year (0.6). Within manufacturing most groups did inrease utilization of capacity, with the exceptions of electrical machinery which declined 0.7 of a percentage point due to the telephone company strike, and petroleum products. Also largely responsible for the lower rate of overall increase in August was auto production, where utilization rose only 1.3 percentage points, compared with 6.8 points in July as reported in last month's Finance Facts.

Capacity Utilization -
Total Manufacturing



Source: Federal Reserve Board

Ysabel M. Burns

CONSUMER SECTOR INDICATORS

		1982				1983	
		I	II	III	IV	I	II
EMPLOYMENT, INCOME, AND SPENDING							
Employment: Household Survey 1/		99,660	99,720	99,605	99,135	99,090	99,933
Employment - Population Ratio 2/	%	58.1	58.0	57.7	57.3	57.1	57.4
Disposable Personal Income 3/	$	2,127.9	2,159.0	2,191.5	2,227.8	2,255.9	2,301.0
Personal Consumption Expenditure 3/	$	1,938.9	1,972.8	2,008.8	2,046.9	2,073.0	2,147.0
Personal Saving 3/	$	130.8	127.1	123.0	120.8	121.7	91.5
CONSUMER INSTALLMENT CREDIT							
Total Outstanding 4/	$	329.0	333.9	335.2	339.3	345.4	354.7
Percent Change	%	0.8	1.5	0.4	1.2	1.8	2.7
Market Share (%)							
Commercial Banks		44.6	44.4	44.3	44.2	44.2	44.5
Finance Companies		27.5	27.8	27.6	27.7	27.7	27.1
Credit Unions		13.9	13.8	13.8	13.8	13.7	13.7

1/ Excludes Resident Armed Forces. Thousands, seasonally adjusted quarterly average
2/ Civilian employment as a percent of the civilian noninstitutional population, seasonally adjusted quarterly averages
3/ Billions, seasonally adjusted annual rate
4/ Billions, seasonally adjusted

Source: Federal Reserve Board, Bureau of Labor Statistics, U.S. Department of Commerce, AFSA.

The above data are updates and revisions to data last presented in the June 1983 issue of Finance Facts. Estimates are revised periodically by the statistical agencies to incorporate methodological changes and new source data.

with this cyclical pattern, since the economy as a whole also experienced a brief false upturn in the spring of 1982 before resuming the recession for another six months.

The cyclical pattern in consumer credit growth is caused by a variety of interrelated factors. The end of a recession is marked by declining interest rates, cyclically low consumer debt levels, rising employment and income prospects and increasing consumer confidence. Together with a backlog of postponed purchases of durable goods, these factors contribute to an upswing in consumers' spending including credit buying. After a few years these factors change: income increases lag, inflation accelerates, debt levels rise, interest rates increase, economic policy tightens, consumer confidence wanes, and part of the backlog of durable demand is satisfied. Then, consumer borrowing relative to income trails off and the cycle begins anew.

Based on current expectations of continued economic growth for the balance of this year and next, the net monthly increases in consumer credit should continue their uptrend through 1983 and well into 1984. However, continuation of increases like the record $4.84 billion rate experienced in July is probably unlikely for August and September, given the slower growth of automobile sales and the decline in durable goods sales that has occurred more recently. More likley is resumption of consumer installment credit growth in the $2 1/2 - 3 1/2 billion monthly range for the rest of this year. Monthly increases of approximately $3 1/4 billion would maintain the credit growth-income ratio in the chart at about its current level, which, of course, is up sharply from last year. More buoyant automobile and durables sales could put the ratio over 2 percent later this year or next year.

Over the longer term it seems less likely that consumer installment credit growth will approach 3 1/2 percent of disposable personal income in this business expansion as it did in the last two cycles. This conclusion arises from two considerations. The first, more an assumption and a hope than a conclusion from hard evidence, is that Federal government economic policy makers this time will adopt responsible fiscal and monetary policies that avoid the inflationary excesses of the late 1970's. Continued slower inflation should limit the buy-in-advance-of-price-hike strategies that swelled consumers' borrowing during those years. The second is that deregulation of interest rates on consumers' financial assets should make holding financial assets more attractive relative to credit-financed real assets in this cycle than was true the last time. Still, at current and projected levels of disposable personal income, installment credit growth of 2-2 1/2 percent translates into monthly increases in the $5 billion range in 1984.

Thomas A. Durkin

American Financial Services Association

1101 Fourteenth St., N.W.
Washington, D.C.
20005